LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6555
BILL NUMBER: HB 1115

DATE PREPARED: Dec 18, 2000
BILL AMENDED:

SUBJECT: Tax Credit for College Savings Program.

FISCAL ANALYST: Brian Tabor
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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides an Adjusted Gross Income (AGI) Tax credit for family college savings deposits made during taxable years beginning after December 31, 2000. It provides that the credit is equal to the lesser of:

(1) 10% of the aggregate of the family college savings deposited by the taxpayer for the taxpayer's dependent during the taxable year; or
(2) $100 per dependent.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional administrative expenses associated with the revision of tax forms, instructions, computer programs, and compliance. However, the Department should be able to absorb these costs given its current resources.

Explanation of State Revenues: *Based on assumptions explained below, the revenue loss associated with this bill in FY 2002 is estimated be $580,000. The loss in FY 2003 is estimated to be $710,000.*

This bill would grant an Individual AGI Tax credit for deposits made into individual trust accounts for family college savings. The credit is equal to the lesser of 10% of the amount deposited in the tax year or $100 (for each eligible dependent). The fiscal impact of this proposal would begin in FY 2002 as the credit would be effective retroactive to January 1, 2001. The credit may not exceed a taxpayer's liability in a given year and is not refundable.

The Indiana Board of Depositories reports that 5,301 Family College Saving Accounts have been established as of December 1, 2000. The Board also reports that about 4,469 of these accounts, or 84%, are held by Indiana residents. In 2000, the number of individuals actually making deposits to their Family College Saving

Accounts is estimated to be 3,800, and this number has been increasing at approximately 19% annually. As the average yearly deposit by Indiana residents during the past four years has been $2,168, it is assumed that each depositor could be eligible for the maximum tax credit of $100. Assuming these levels remain constant, the fiscal impact of this proposal in FY 2002 would be a $580,000 reduction in state Individual AGI tax revenue (5,800 projected depositors multiplied by the $100 credit). In FY 2003, the revenue loss is estimated to be $710,000 assuming additional accounts are established.

Establishing a tax credit for Family College Saving Account deposits may encourage additional individuals to open family saving accounts and to contribute regularly (some account owners have made only one-time deposits). For every 1,000 taxpayers contributing at least $1,000 to an account each year, there would be a potential additional revenue loss of $100,000 in Individual AGI Tax.

The first year of impact for this bill would be FY 2002. Individual Adjusted Gross Income Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Susan Loftus, Executive Director, Indiana Board of Depositories, (317) 232-5259.